EUROPEAN EFFORTS FOR ECONOMIC COLLABORATION

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INTRODUCTION

DURING the past two years Europe, with the rest of the world, has been passing through an acute economic crisis, the roots of which may be traced back to 1918. The World War had wrought manifold and far-reaching economic changes: capital had been destroyed and state indebtedness increased, some industries had been paralyzed while others had been abnormally developed, and new frontiers had been created, accompanied by the erection of new tariff barriers. These changes called for fundamental readjustments in Europe's economic structure if a sound recovery was to be made during the post-war period. The European states, however, attempted to reconstruct their respective economic systems along national lines, and practically no advance was made before 1927 toward concerted action in the economic sphere. As a result, Europe's partial return to "normalcy" proved in the long run less stable than it had appeared.[1]

Agriculture was the first to experience a crisis. The increased production of cereals, due to the extension of acreage in overseas countries during the war, the introduction of improvements in farming, and the artificial stimulation of agriculture in the new states of Europe by means of protection and export bounties was out of all proportion to consumption, which either declined or remained stationary.[2] The fall of world prices of grain, which began in 1928 and reached a low point in the autumn of 1930 with the reappearance of Soviet exports, dealt a severe blow to the farmers of Eastern and Southeastern Europe, whose financial situation was further aggravated by the scarcity of credits, which could be obtained only at usurious rates.[3] This shrinkage in the financial resources of agricultural countries resulted, in turn, in diminished purchases of manufactured goods from industrial states.

Industry, meanwhile, was also passing through a crisis. The rate of production had been considerably accelerated since the war by rationalization and technical improvements. The Succession States,[5] animated by a spirit of nationalism, had encouraged the development of new industries with a view to achieving economic self-sufficiency. The marketing of an increased volume of goods, moreover, was hampered on the one hand by the erection of high tariff barriers, especially on the territory of the

1. League of Nations, Commission of Enquiry for European Union, *Economic Depression* (Report prepared by the Secretariat of the League of Nations), C.284.M.134. (Geneva, 1931), p. 2.

2. Before the war, 75 per cent of Europe's wheat requirements were covered by European production, the remainder coming from overseas countries which supplied from 75 to 80 million quintals, and from Russia, which contributed from 42 to 46 million quintals. During the World War, however, owing to the decrease of agricultural production in Europe, wheat exports from overseas countries (Argentina, Australia, Canada and the United States) rose to 196 million quintals. The European area under wheat in 1919 was only 81.8 per cent of that sown in 1909-1918; it has since then gradually increased, but on the whole European production is still below the pre-war average level. Meanwhile, the overseas countries have continued to increase the area under wheat, which between 1926 and 1930 rose by 4 per cent in Argentina, by 55 per cent in Australia, by 9 per cent in Canada and by 5 per cent in the United States. As a result, world wheat output increased from 882,600,000 quintals in 1900-1913 to 960,600,000 quintals in 1925-1929, and to over 1,000,000,000 quintals in 1930. (Giuseppe de Michelis, *Economic Relations between Europe and the United States in the Field of Agriculture*, International Chamber of Commerce, 1931. One quintal equals 3.6743 U. S. bushels.) The average per capita consumption of wheat, however, has declined from 65.9 kilograms in 1909-1914 to 63.2 kilograms in 1925-1930. The most marked reductions in per capita consumption of wheat have taken place in industrial countries, both in Europe and overseas, as a result of industrialization, a rising standard of living and a consequent change in diet. (League of Nations, Economic Committee, *The Agricultural Crisis*, C.239.M.105.1931.II., Geneva, June 15, 1931, Vol. I, p. 27.)

3. It has been estimated that in some of the countries of Eastern and Southeastern Europe the farmer can obtain credit only at rates varying from 18 to 50 per cent. League of Nations, *The Agricultural Crisis*, cited, Vol. I, p. 14. In June 1931 the Rumanian government established an agricultural mortgage credit institution which will extend agricultural credits at rates from 10 to 12 per cent. ("L'Effort Roumain," *Journal de Genève*, July 24, 1931.)

4. No attempt is made in this report to inquire into the agricultural crisis except as it has affected the tariff policies of the European states. Such questions as methods of agricultural production and domestic legislation for the improvement and stabilization of agriculture therefore fall outside the scope of this report.

5. This phrase is commonly used to describe the new states formed after the World War, in whole or in part, of territory previously belonging to the Austro-Hungarian Empire. These states include Austria, Hungary, Czechoslovakia, Jugoslavia, Poland and Rumania.

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former Austro-Hungarian Empire, and on the other hand by the decline of purchasing power in agricultural countries. Nevertheless, as in previous depressions, the prices of manufactured goods declined less rapidly than those of agricultural products and raw materials. In consequence, the industrial countries of Europe, while experiencing a sharp increase in unemployment, suffered less from the depression than the agricultural countries, which were faced by a growing disproportion between the price of the commodities they had to buy and those they were able to sell. Furthermore, political and economic uncertainty, accentuated in 1931 by a crisis in Germany's financial situation, caused lack of confidence among investors. The capital-exporting countries showed a tendency to restrict loans and credits, with the result that many states, principally in Eastern and Southeastern Europe, were threatened with a shortage of capital, and a number of banks failed or were forced to seek government assistance.[6]

EUROPEAN ECONOMIC CONFERENCES

THE EUROPEAN COMMISSION

The efforts of the League of Nations to secure concerted action after 1927 on such matters as the reduction of tariffs and the establishment of a customs truce[7] were rendered largely nugatory by the unwillingness of certain states, notably France, to abandon their nationalistic economic policies. The failure of the League to alleviate economic rivalries or remove trade restrictions gave rise to the view that many of these problems, while subject to world influences, were primarily European in character, and that their solution should be sought, not in the League, but in an organization of European states. This view was set forth in a memorandum issued on May 17, 1930 by M. Briand, French Minister of Foreign Affairs, who proposed the formation of a European Union.[8] Following discussion of the Briand project at the Eleventh Assembly of the League of Nations, the twenty-seven European states members of the League agreed on September 8, 1930 to establish a Commission of Enquiry for European Union which was to work in close collaboration with the League of Nations.[9] This commission held its first session on September 23, 1930, when it elected M. Briand president and requested the Secretary-General of the League of Nations for information on certain technical questions which had already been dealt with by the League.

A report of the Secretary-General,[10] as well as a memorandum prepared by the International Labour Office, were submitted to the European Commission before its second session, held at Geneva in January 1931. At this session the commission decided to undertake the study of the world economic crisis in so far as it affected Europe, and to invite three European states, non-members of the League—Iceland, Turkey and the Soviet Union—to participate in this task.[11] Furthermore, the commission suggested that a conference of European grain-exporting countries be held to study methods for the sale of the existing grain surplus.[12] Three committees were appointed by the European Commission—one for the disposal of future harvest surpluses, one to collaborate with the Financial Committee of the League in the preparation of a scheme for the extension of agricultural credits, and one to study questions of organization and procedure.[13] The European Commission also recommended the enforcement of the commercial convention of March 24, 1930, which

6. League of Nations, Commission of Enquiry for European Union, *Economic Depression*, cited; *Idem.*, *Unemployment* (Summary of the Proposals of the International Labour Office for Practical Action in Connection with Unemployment in Europe), C.275.M.127. (Geneva, 1931); League of Nations, *The Agricultural Crisis*, cited.

7. Cf. Harvey J. Bresler, "Trade Barriers and the League of Nations," *Foreign Policy Reports*, Vol. VII, No. 11, August 5, 1931.

8. William T. Stone, "The Briand Project for European Union," Foreign Policy Association, *Information Service*, Vol. VI, No. 14, September 17, 1930.

9. For purposes of brevity, the Commission of Enquiry for European Union is usually described as the European Commission.

10. League of Nations, Commission of Enquiry for European Union, *Report by the Secretary-General on Certain Technical Questions which have been dealt with by the League of Nations*, C.693.M.290. (Geneva, 1930). These questions concerned the economic, financial, health, transit and communications activities of the League, with special reference to Europe.

11. An invitation to attend the May 1931 sessions of the European Commission devoted to economic questions was conveyed to the governments of Iceland, Turkey and the Soviet Union by the Secretary-General of the League of Nations on January 23, 1931.

12. For the work of this conference, which was held in Paris in February 1931, cf. p. 222.

13. For the work of the committees on future harvest surpluses and on agricultural credits, cf. p. 222, 236.

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established a customs truce,[14] and requested the International Labour Office for information on unemployment. Finally, the commission reached the conclusion that economic recovery was hampered by lack of confidence in the future, due to widespread political anxiety, and sought to restore confidence by declaring that its members were more than ever determined to use the machinery of the League to prevent any recourse to violence.[15]

The third session of the European Commission, which was held at Geneva in May 1931, was marked by the discussion of European customs relations, a question placed on the agenda at the request of the German government.[16] The commission appointed an economic co-ordination committee to which it referred projects sponsored by various governments, including the French plan on agriculture, industry, credits and aid to Austria, the Italian proposal for bilateral commercial agreements, and a draft protocol for economic non-aggression submitted by M. Litvinov, Soviet Commissar for Foreign Affairs.[17] The committee on future harvest surpluses, enlarged to include representatives of Hungary, Rumania, Turkey and the Soviet Union, was convened for June 1931 in Geneva, and a committee of experts was formed to study methods for improving production and trade. The European Commission, furthermore, decided to collaborate with the International Labour Office in a study of unemployment, and requested the Council of the League to appoint a small committee to consider what practical steps could be taken to facilitate the issue of state loans of an international character under League supervision. Finally, the European Commission approved a scheme for the establishment of an International Agricultural Mortgage Credit Company.[18]

REGIONAL CONFERENCES

Meanwhile, various states, finding the progress of the League and the European Commission too slow for their purposes, had turned to regional cooperation in such matters as tariffs and agriculture. At a conference held in Oslo in December 1930, six Northern European states—Belgium, Denmark, Luxemburg, the Netherlands, Norway and Sweden—signed an agreement in which they undertook not to increase their tariffs for a period of one year without due notification of a proposed increase to the other contracting parties, which would then have the opportunity to negotiate an equitable compromise. In addition, the states represented at the Oslo conference adopted a protocol expressing their willingness to enter into further negotiations and their desire to support future international efforts for tariff reduction.[19]

Similarly, the agricultural states of Eastern and Southeastern Europe, faced with a rapidly developing crisis, sought to find a remedy at three conferences held at Bucharest and Sinaia in July, and at Warsaw in August 1930.[20] The states represented at these conferences demanded agricultural credits and preferential treatment for their products by the industrial states of Europe, and recommended a joint commission for the sale of cereals. They recognized that agricultural preferences would constitute a derogation to the most-favored-nation clause, but declared that such preferences would not materially injure the interests of overseas countries, which would continue to supply by far the larger portion of the European grain deficit.[21] Furthermore, it was asserted

14. For the details of this convention, cf. Bresler, "Trade Barriers and the League of Nations," cited.

15. League of Nations, Commission of Enquiry for European Union, *Minutes of the Second Session of the Commission, held at Geneva from January 16 to 21, 1931,* C.144.M.45. (Geneva, 1931).

16. Cf. p. 232.

17. For a discussion of the French and Italian projects, cf. p. 235. The Litvinov proposal will be discussed in a forthcoming report in connection with recent developments in Soviet foreign policy.

18. League of Nations, *Report by the Secretary-General to the Assembly on the Work of the Commission of Enquiry for European Union,* A.17. (Geneva, June 26, 1931), p. 10 *et seq.* For discussion of the work of the committees appointed by the European Commission at its May 1931 session and details regarding the International Agricultural Mortgage Credit Company. cf. p. 236 *et seq.*

19. For the texts of the convention and the protocol, cf. *L'Europe Nouvelle,* January 24, 1931, p. 121-123. Cf. also *The Economist* (London), January 10, 1931, p. 69.

20. The Bucharest conference was attended by Hungary, Rumania and Jugoslavia. For the protocol of this conference, cf. *L'Europe Nouvelle,* September 13, 1930, p. 1325. The Sinaia conference was attended by Rumania and Jugoslavia. Eight states—Belgium, Estonia, Latvia, Poland, Czechoslovakia, Hungary, Rumania and Jugoslavia—participated in the Warsaw conference. For the resolutions adopted by the Warsaw conference, cf. *ibid.,* p. 1326. The states represented at this conference continued their negotiations at Bucharest in October and at Warsaw in November 1930.

21. On April 1, 1931 the exportable surplus of wheat was estimated as follows:

	Bushels
United States	330,000,000
Canada	220,000,000
Argentina	125,000,000
Australia	95,000,000
U.S.S.R.	10,000,000
Other countries	20,000,000
TOTAL	800,000,000

International Institute of Agriculture, *International Review of Agriculture,* Vol. XXII, No. 5, May 1931, p. 254.

The quantity of wheat necessary to cover consumption in

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that the increase in the purchasing power of Europe's agricultural countries which would result from such preferences would eventually benefit industrial states both in Europe and overseas.

DEMANDS OF THE AGRARIAN STATES

In accordance with the conclusions of the Bucharest and Warsaw conferences, Hungary, Jugoslavia, Poland and Rumania demanded preferential treatment for their surplus grain at the Second League Conference for Concerted Economic Action, held in Geneva on November 17, 1930. This demand, while favorably considered by the industrial states represented at the conference, encountered a number of difficulties, the principal of which was the application of the most-favored-nation clause.[22] Consequently, no general agreement was reached at this conference, which recommended the conclusion of bilateral preferential agreements by industrial and agricultural states. A further attempt to secure preferential treatment was made by the Danubian countries at the second session of the European Commission held in January 1931, but once again their proposal was defeated by the unwillingness of the industrial states to modify the most-favored-nation clause.[23] The commission, however, adopted a resolution in which it recognized "the exceptional gravity" of the agricultural crisis, and suggested that representatives of the European grain-importing and exporting countries should meet to devise a method of disposing of the existing grain surplus. In addition, it established a committee to study measures for the export of future harvest surpluses in collaboration with the League of Nations and the International Institute of Agriculture.[24]

At the conference of European grain-importing and exporting countries held in Paris in February 1931, which dealt with the 1930 surplus of cereals, the industrial states agreed in principle to purchase a certain proportion of their wheat, maize and barley from the agricultural countries of Europe, and to open negotiations to that effect without delay.[25] While this conference advocated agreements between industrial and agricultural countries as the solution of the immediate problem, the committee on the export of future harvest surpluses of cereals, likewise meeting in Paris in February 1931, reached the conclusion that the disposal of surplus European cereals was not merely a European but a world problem, and that a satisfactory solution could be reached only by means of an international agreement.[26]

Serious obstacles to international agreement on this subject, however, were revealed at the Second World Wheat Conference, held in Rome in March-April 1931 under the auspices of the International Institute of Agriculture and attended by forty-six official delegations. The demands of the Danubian states for preferential treatment met with vigorous opposition from overseas countries, notably Argentina. The conference therefore contented itself with the recommendation that the interested states should seek to obtain preferences through diplomatic channels.[27] Finally, the conference of eleven wheat-exporting states held in London in May 1931[28] failed to reach any conclusion regarding the various proposals submitted to it for restriction of agricultural production, export quotas on wheat and flour, and the organization of an international wheat commis-

importing countries was estimated in February 1931 at 850,000,000 bushels, of which 680,000,000 bushels were needed for European, and 170,000,000 bushels for non-European countries. (*Ibid.*, No. 2, February 1931, p. 69 *et seq.*)

It has been estimated that the surplus grain held by the European agricultural countries is not sufficient to cover more than 8 to 15 per cent of European grain imports, 85 to 92 per cent of which would still have to be purchased from overseas countries. League of Nations, *The Agricultural Crisis*, cited, p. 55.

22. League of Nations, *Proceedings of the Second International Economic Conference with a View to Concerted Economic Action (First Session), held at Geneva from November 17 to 28, 1930*, C.149.M.48.1931.II.B.

23. League of Nations, *Minutes of the Second Session of the Commission*, cited.

24. *Ibid.*, p. 81.

25. League of Nations, Commission of Enquiry for European Union, *Meeting for the Disposal of 1930 Cereal Stocks, Paris, February 23 to 25, 1931, Final Act*, C.196.M.79. (Geneva, 1931), p. 6. The following twenty-two states were represented at the conference: Austria, Belgium, Bulgaria, Czechoslovakia, Denmark, Estonia, France, Germany, Great Britain, Greece, Hungary, the Irish Free State, Italy, Jugoslavia, Latvia, Lithuania, Luxemburg, the Netherlands, Poland, Rumania, Sweden and Switzerland. The conference reserved examination of the question of rye and oats.

26. League of Nations, Commission of Enquiry for European Union, *Committee to Study the Problem of the Export of Future Harvest Surpluses of Cereals, Paris, February 26 to 28, 1931*, C.192.M.75. (Geneva, 1931). The following eleven states were represented on this committee: Austria, Belgium, Czechoslovakia, Estonia, France, Germany, Great Britain, Italy, Jugoslavia, Norway and Switzerland.

27. International Institute of Agriculture, Rome, *Final Act of the International Preparatory Conference of the Second World Wheat Conference, March 26-April 2, 1931*, p. 6.

28. The states represented at the London conference were Argentina, Australia, Bulgaria, Canada, Hungary, India, Jugoslavia, Rumania, Poland, the United States, and the Union of Soviet Socialist Republics.

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sion.[29] This series of conferences made it clear that if the agricultural states of Europe were to find a remedy for their difficulties in preferential treatment, they would have to obtain such treatment not by general negotiations but by bilateral agreements with industrial states.

THE MOST-FAVORED-NATION CLAUSE

The negotiation of bilateral preferential agreements, however, has hitherto been hampered by the most-favored-nation clause, which is found in practically all commercial treaties. This clause, which may be conditional or unconditional in form, was originally intended to prevent tariff discrimination and assures to each of the contracting parties the advantages which have been or may be accorded to any third state. The conditional form, which until 1923 occurred most frequently in American treaties, provides that the contracting parties shall accord each other advantages conceded to third states, freely if the concession was freely made, or on allowing similar compensation if the concession was made for an equivalent.[30] The unconditional form, which has been used by European states almost exclusively since 1860 in its unrestricted form, freely extends to each of the contracting parties all favors or privileges which the other may grant to a third state, irrespective of equivalent compensation.[31] The World Economic Conference held at Geneva in 1927 reached the conclusion that the mutual grant of unconditional most-favored-nation treatment was an essential prerequisite for the free and healthy development of commerce, and recommended that the scope and form of the most-favored-nation clause should be of the widest and most liberal character.[32]

Exceptions to the Clause

Certain special situations are generally excepted by European practice from the application of the unrestricted unconditional most-favored-nation clause. The Economic Committee of the League of Nations, which has been studying the interpretation of the clause for a number of years, recognizes as such exceptions customs facilities granted to frontier traffic and special arrangements based on geographic, ethnic or historic ties.[33] In a report presented to the International Chamber of Commerce in 1931, the Austrian National Committee declared that existing tariff barriers could be successfully removed only by means of multilateral agreements which would be concluded by regional groups of states and serve as a basis for European union. The facilities accorded by multilateral regional agreements to the trade of the contracting parties should, according to the Austrian National Committee, be recognized as exceptions to most-favored-nation treatment. As a prerequisite to such agreements which, the committee claimed, were particularly necessary in Central Europe, the European states should undertake a "courageous" reform of the most-favored-nation clause.[34] The com-

29. An experiment in establishing export quotas for cereals was made by the German-Polish rye agreement of February 18, 1930, which established a joint rye commission endowed with a practical monopoly of the rye exports of the two countries. The quantities of rye to be exported by the commission were fixed on a percentage basis, 60 per cent being assigned to Germany and 40 per cent to Poland. The activities of the commission were limited largely to trade in the Baltic region. The rye agreement worked satisfactorily until September 1930, when Germany, finding the export of rye unprofitable as a result of the decline in the world price, suspended exports, and attempted to increase the domestic consumption of rye. Germany's change of policy reduced the operation of the rye agreement to a minimum. Nevertheless, it is believed that this agreement has demonstrated the benefits of regional cooperation for the export of cereals. Cf. Kenneth Colegrove, "The German-Polish Rye Agreement," *The Journal of Political Economy*, Vol. XXXIX, No. 2, April 1931, p. 213. For the text of the German-Polish rye agreement, cf. *L'Europe Nouvelle*, November 29, 1930, p. 1741.

30. In November 1923, however, the Department of State announced that it would take steps to conclude new commercial treaties embodying unconditional most-favored-nation treatment with the countries of Central and South America. At present the unconditional clause is found in ten American treaties concluded with Austria, China, Estonia, Germany, Honduras, Hungary, Jugoslavia, Latvia, Salvador and Turkey. By executive agreement unconditional most-favored-nation treatment has also been extended to Albania, Brazil, Czechoslovakia, the Dominican Republic, Egypt, Finland, Greece, Guatemala, Haiti, Lithuania, Nicaragua, Persia, Poland, Rumania and Spain.

31. By the restricted or limited form of the unconditional most-favored-nation clause, the contracting parties undertake to grant each other only specified advantages which may be extended to third states. Cf. United States, Tariff Commission, *Reciprocity and Commercial Treaties* (Washington, Government Printing Office, 1919), p. 391-392.

32. League of Nations, *Report and Proceedings of the World Economic Conference held at Geneva, May 4 to 23, 1927*, C.356.M.129.1927.II. (Geneva, 1927), Vol. I, p. 43.

33. Report of the Economic Committee during its Twenty-Seventh Session, January 14 to 19, 1929, League of Nations, *Official Journal, Minutes of the Fifty-Fourth Session of the Council, Geneva, March 4 to March 9, 1929*, 10th Year, No. 4, April 1929, p. 633.

The following regional reservations based on geographic, ethnic or historic considerations are now generally recognized in Europe as exceptions to the most-favored-nation clause: privileges granted by Spain and Portugal to each other (the Iberian clause), by Portugal to Brazil, and by Spain to Latin American countries; the special régime between Switzerland and certain zones of French territory; privileges granted by the three Scandinavian states, Denmark, Norway and Sweden, to each other (the Scandinavian clause); privileges granted by the Baltic states, Finland, Estonia, Latvia and Lithuania, to each other (the Baltic clause), and the concessions or special benefits granted by Turkey to states which at one time formed part of the Ottoman Empire. The majority of the commercial treaties concluded by the Union of Soviet Socialist Republics provide that the most-favored-nation clause does not extend to privileges or facilities granted to countries which at one time formed part of the Russian Empire (Finland, Estonia, Latvia, Lithuania and Poland) or to adjacent Asiatic countries (China, Mongolia, Afghanistan, Persia and Turkey). Cf. Richard Riedl, *Exceptions to the Most-Favoured-Nation Treatment*, report presented to the International Chamber of Commerce by the Austrian National Committee (London, King and Son, 1931), p. 12 *et seq.*

34. Riedl, *Exceptions to the Most-Favoured-Nation Treatment*, cited, p. 22 *et seq.*

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ments of other national committees on the Austrian proposal were either evasive or unfavorable, the British committee stating that the creation of any new geographic groups of whatever nature was a political matter of the utmost delicacy, and that any attempt to conclude regional customs agreements in disregard of the most-favored-nation clause might have far-reaching repercussions.[35] The International Chamber of Commerce, at its sixth general congress held in Washington in May 1931, stated that the most-favored-nation clause constitutes the foundation of a progressive commercial policy, but added that it was desirable, under existing circumstances, to include mutual preferential treatment among the recognized exceptions to the clause. The International Chamber, however, did not attempt to draft a general rule, declaring that exceptions to the most-favored-nation clause must be examined specifically on the merits of each particular case.[36]

Customs Unions as an Exception

Another generally recognized exception to the most-favored-nation clause, stipulated by a number of European commercial treaties, concerns the obligations which one of the contracting parties may incur through the formation of a customs union with a third state. The Economic Committee of the League declared in 1929 that the formation of a "complete" customs union with a third state must be regarded as an exception to the most-favored-nation clause.[37] No definition of a "complete" customs union was given by the Economic Committee. The term, however, is usually understood to describe an arrangement providing for the assimilation of the customs administration of two countries and the removal of all duties on their trade with each other, an example of which is found in the customs union established by Belgium and Luxemburg in 1921, the only customs union of any importance now existing in Europe.[38]

Despite these various qualifications, the unconditional most-favored-nation clause has served in the past to defeat all serious attempts at reduction of duties by means of tariff preferences, since concessions so accorded are automatically extended to third states enjoying most-favored-nation treatment.[39] The proposals of the Bucharest and Warsaw conferences for preferential treatment of European agricultural products would involve at least temporary derogations to the most-favored-nation clause, while some of the recent bilateral treaties have sought to circumvent the clause either by establishing customs unions or by granting concealed preferences. A number of European countries, however, still attach great importance to the clause, and there is no immediate prospect of its abandonment, or even of the substitution of the conditional form for the unconditional.

POLITICAL OBSTACLES TO BILATERAL AGREEMENTS

The most-favored-nation clause, moreover, is not the only obstacle to bilateral preferential agreements. Preferences accorded by one state to another may injure the economic interests of third states, and are therefore regarded with hostility. This situation has been further aggravated by the threatened breakdown of the post-war political alignment, which roughly divided the Continent into victors and vanquished, and a tendency towards the establishment of a new system of treaties based on the mutual economic interests of ex-enemy states. Thus the agricultural countries of Southeastern Europe, which have acted since the war as satellites of France, are developing economic ties with Germany and Austria, where they find a market for their surplus grain. The pro-German orientation of these countries, in turn, has caused considerable anxiety to France, which fears the establishment of German hegemony in Central Europe and the eventual breakdown of the *status quo*.

35. International Chamber of Commerce, Washington Congress, 1931, *Exceptions to the Most-Favoured-Nation Treatment, Replies of National Committees*, p. 6-7.

36. International Chamber of Commerce, *Resolutions adopted by the Washington Congress, May 4 to 9, 1931* (Paris, International Headquarters, 1931), Brochure No. 77, p. 14.

37. Report of the Economic Committee during its Twenty-Seventh Session, cited.

38. Cf. convention between Belgium and the Grand Duchy of Luxemburg for the establishment of an economic union between the two countries, July 25, 1921. (League of Nations, *Treaty Series*, Vol. IX, 1922, p. 224.) By an agreement of March 29, 1923, the principality of Liechtenstein was included in the Swiss customs territory. (*Ibid.*, Vol. XXI, 1923-1924, p. 243.) The Free City of Danzig was included in the Polish customs area by a convention of November 9, 1920. (*Ibid.*, Vol. VI, 1921, p. 191.) Estonia and Latvia concluded an agreement on June 3, 1931 which represents a step toward the establishment of a customs union between the two countries.

39. Cf. Harry Chalmers, "Foreign Tariffs and Trade-Control Movements, 1930-1931," Department of Commerce, *Commerce Reports*, April 20, 1931, p. 4.

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THE AUSTRO-GERMAN CUSTOMS UNION

These new tendencies in European politics might have remained indefinitely in a latent state had they not been suddenly crystallized by the announcement on March 21, 1931 of the Vienna Protocol, in which Austria and Germany agreed to establish a customs union. The Austro-German project, which its authors described as purely economic in character, immediately revived the question of the *Anschluss*,[40] further alienated France and Czechoslovakia from the Central Powers, accentuated differences within the Little Entente, hastened a financial crisis in Austria, and aroused France to fresh efforts on behalf of European union.

The significance of the Vienna Protocol, which represents the first serious attempt to solve economic problems by means of a bilateral agreement, is due primarily to the peculiar international position of Austria. This mountainous, landlocked country is strategically situated in the heart of Central Europe on the direct route from Germany to the Balkans and the Near East. The dismemberment of the Hapsburg Empire, which had constituted a vast free-trade area, and the erection of high tariff barriers by the Succession States have deprived Austria of its principal markets and sources of raw materials, and have crippled important branches of its industry. The failure of the League of Nations during the past few years to obtain greater facilities for Austrian foreign trade raised anew the question of the country's "capacity to live" (*Lebensfähigkeit*).[41] Meanwhile, all hope of a union with Germany, which had been periodically advocated in Austria as the only remedy for the country's economic ills, appeared to be precluded by the peace treaties and the Geneva Protocol of 1922 which imposed on Austria the obligation to maintain its political and economic independence. It was under these circumstances that the Vienna Protocol attempted, by a single dramatic stroke, to cut the Gordian knot of Austria's economic problems.

ECONOMIC SITUATION OF AUSTRIA

The difficulties under which Austria has labored since the war may be traced, in part, to certain weaknesses inherent in its economic system, but in greater part, perhaps, to the obstacles encountered by its foreign trade. Austrian agriculture, which furnishes employment to nearly 50 per cent of the population, has suffered, in common with that of other European countries, from the decline in agricultural prices and the scarcity of credits.[42] The domestic production of wheat, rye and sugar, however, is not sufficient to meet the country's requirements. As a result, Austria must import a considerable proportion of its foodstuffs, chiefly from the Succession States which, despite political frontiers and tariff barriers, continue to regard Vienna as their principal market. Thus Austria imports 50 per cent of Hungary's exports of cattle and pigs, and over 50 per cent of its grain and flour exports; it receives 60 per cent of Jugoslavia's cattle and 33 per cent of its cereals; while Rumania exports to Austria 59 per cent of its wheatmeal, 73 per cent of its cattle and 42 per cent of its pigs.[43] Before the war Austria purchased the foodstuffs it lacked from the agrarian sections of the empire in a free trade market; today, however, the manufactured goods with which it pays for them are subject to high duties in the Succession States. In June 1931 the Austrian government raised its duties on grain and flour by an amendment to the customs tariff.[44] It is hoped that these new duties will not only protect domestic agriculture but will serve as a weapon in future tariff bargaining with the Succession States.

Industry, likewise, has suffered from lack of capital, and has been deprived of its former sources of raw materials, notably the coal of Czechoslovakia. The Austrian textile industry, various branches of which

40. Political union between Germany and Austria. For the origins of the *Anschluss* question, cf. Dr. Gerhard Hoeper, *Oesterreichs Weg zum Anschluss* (Berlin, Hobbing, 1928); F. F. G. Kleinwaechter, *Der Deutsch-Oesterreichische Mensch und der Anschluss* (Vienna, Eckhart Verlag, 1926); "The Problem of an Austro-German Union," Foreign Policy Association, *Information Service*, Vol. III, No. 20, December 9, 1927.

41. An inquiry into Austria's "capacity to live" was made by the League of Nations in 1925 when the question was answered in the affirmative. Cf. League of Nations, *The Economic Situation of Austria*, Report presented to the Council of the League of Nations by W. T. Layton and Charles Rist, C.440.M.162. (Geneva, 1925).

42. League of Nations, *The Agricultural Crisis*, cited, p. 91.
43. *Ibid.*, p. 100.
44. *The Economist* (London), July 25, 1931, p. 175.

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were formerly situated in Czechoslovakia, has found it difficult to effect a readjustment and to meet Czechoslovak competition.[45] The luxury trades connected with the manufacture of clothing, leather goods and porcelain, which constitute a distinctive branch of Austrian economy, find no outlet on the domestic market, where the purchasing power of the population has decreased sharply since the war, and depend almost entirely on export for their existence.[46-47]

AUSTRIA'S FOREIGN TRADE

Austria's exports to neighboring countries have been materially hampered, however, by the decline in the purchasing power of agricultural countries and by the economic nationalism of the Succession States.[48] To remedy the condition of Austria's foreign trade, the Economic Committee of the League of Nations in its report of December 5, 1925 recommended that Austria and the Succession States should be invited to conclude among themselves "commercial agreements of the closest possible character which would by suitable means satisfy the needs of each state" without interfering with previous obligations, and suggested that other European states should be invited, in turn, to facilitate Austrian production and trade.[51] These recommendations, which were approved by the Council of the League on December 9, 1925, have remained to all intents and purposes a dead letter. Austria's foreign trade received no tangible relief during the succeeding years, and proved peculiarly vulnerable to the world economic crisis, which still further restricted its markets.

The difficulties experienced by Austria after 1928 revived once more the idea of economic union with Germany, which had been mooted at the close of the World War and again in 1925, when Austrian industry and trade had taken a distinct turn for the worse.[52] Austrian aspirations apparently met with a sympathetic reception in Germany, which was faced with the problem of finding new markets for its expanding industry and, like Austria, was hampered by the high tariffs of neighboring states. Austro-German commercial relations were discussed in the course of a visit which Dr. Schober, Austrian Minister of Foreign Affairs, paid to Berlin in February 1930.[53] Subsequently, at the Eleventh Assembly of the League on September 12, 1930, when the Briand project for European union was under examination, Dr. Schober set forth the commercial policy which Austria proposed to follow in the future. While expressing approval of the Briand project, he declared that its methods would be too slow for certain European states, notably Austria. To solve the immediate problem, the Austrian government recommended the conclusion of regional agreements between agricultural and industrial states whose economic interests were complementary. Such agreements, according to Dr. Schober, would not only serve to improve economic conditions in Central Europe, but would provide a foundation for the eventual realization of the Briand project.[54] Dr. Schober's proposal was enthusiastically welcomed by Dr. Curtius, German Minister of Foreign Affairs, who declared that the German delegation would actively help to give it effect.[55]

THE VIENNA PROTOCOL

Following this exchange of views, Dr. Curtius paid a visit to Vienna early in

45. Before the war spinning had for the most part been concentrated in Austria, while weaving had been developed in Czechoslovakia. Austria found after the war that its weaving industry was barely adequate to meet the domestic demand, while its spinning industry was far in excess of domestic requirements; as a result, it had to export a large proportion of its output. (League of Nations, *The Economic Situation of Austria*, p. 57.)

46-47. Austrian Federal Press Department, Federal Chancellery, *The Austrian Year Book 1930* (Vienna, Mänzsche Verlags- und Universitäts-Buchhandlung, 1930), p. 127 *et seq;* Department of Commerce, *Commerce Yearbook 1930*, Vol. II, p. 37.

In 1930 foodstuffs constituted 22.6 per cent, raw materials and semi-manufactured goods 27.8 per cent, and manufactured goods 39.9 per cent of Austria's total imports; while manufactured goods formed 71.8 per cent, and raw materials and semi-mnaufactured goods 22.2 per cent of its total exports. (Austria, Statistische Departement, *Monatshefte der Statistik des Aussenhandels Oesterreichs*, Vienna, Bundesministerium für Handel und Verkehr, December 1930, p. 7.)

48. Cf. League of Nations, Report of the Economic Committee of the League of Nations, December 5, 1925, *The Financial Reconstruction of Austria, General Survey and Principal Documents* (Geneva, 1926), p. 254.

The Layton-Rist report of 1925 estimated as follows the tariff levels of Austria's neighbors in their incidence on Austrian products:

	per cent	*per cent*
Germany	14	17½
Czechoslovakia	21¼	30¾
Italy	16	21
Jugoslavia	27	41
Hungary	28	40
Poland	49	67
Rumania	19	23
Austria	....	21

League of Nations, *The Economic Situation of Austria*, cited, p. 89. For the methods used in these calculations, cf. *ibid.*, p. 89, footnote 1.

51. League of Nations, *The Financial Reconstruction of Austria*, cited, p. 257.

52. *Ibid.*, p. 65; cf. also "The Problem of an Austro-German Customs Union," cited.

53. Dr. Leonhard Oberascher, "Der Sinn der Deutsche-Oesterreichischen Zollunion," *Wirtschaftsdienst*, May 29, 1931, p. 929.

54. League of Nations, *Official Journal, Records of the Eleventh Ordinary Session of the Assembly, Plenary Meetings, Text of the Debates* (Geneva, 1930), p. 60-61.

55. *Ibid.*, p. 102.

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March 1931, when it was agreed to open negotiations along the lines of Dr. Schober's Geneva proposal. It has been reported that the initiative was taken by Austria, which notified Germany that it had already received overtures for an economic union from a third country, presumably Czechoslovakia. According to another version, Germany was the first to raise the question, in the hope that it might use the prospect of economic union with Austria as a bargaining-point in future negotiations with France. Whatever may have been the origin of the negotiations, it would appear from subsequent statements by Drs. Schober and Curtius that the agreement concerning a proposed Austro-German customs union, known as the Vienna Protocol, was not concluded until March 19, 1931. The two governments, according to Dr. Schober, had at first intended to submit the protocol to the European Commission, which was to meet in May at Geneva, but later decided to place it before the Preparatory Committee of the commission scheduled to meet in Paris on March 24. Consequently, it was agreed to notify Great Britain, France and Italy simultaneously by March 23.[56] A newspaper leak in Berlin, however, forced the two governments to alter their plans at the last minute, and foreign states were therefore formally notified on March 21. The text of the protocol was not published until March 23.

PROPOSED CUSTOMS TREATY

The Vienna Protocol[57] declared that Germany and Austria had agreed to enter into negotiations for a treaty to assimilate the tariff and economic policies of the two countries. The proposed treaty, "while completely maintaining the independence of the two states and fully respecting the obligations undertaken by them towards other states," was designed "to initiate a reorganization of European economic conditions by regional agreements." The Vienna Protocol expressly disavowed any intention of establishing a closed economic system: the two governments declared their willingness to enter into negotiations for similar agreements with third states.

The protocol provided that in the proposed treaty Germany and Austria were to reach an agreement regarding a tariff law and a customs tariff which were to go into effect concurrently with the treaty, and to remain in force for the period of the latter's validity, which was set at three years. Each country was to retain control over its customs administration, and no attempt was to be made to create a common customs régime or to establish a customs Parliament (*Zollparlement*). Free trade was not contemplated in the immediate future: while duties were to be removed on many of the commodities exchanged by the two countries, internal duties (*Zwischenzölle*) were to be levied on specified categories of goods during a period to be agreed on, presumably to facilitate adjustment to the new system. Duties collected on the goods of third states were to be apportioned between the two countries according to a quota, after deduction of the special expenses occasioned by the application of the treaty. According to the protocol, any agreement on this subject was to be so framed as not to prejudice existing liens on customs revenues.[57a]

With respect to external commercial policy, the Vienna Protocol declared that each of the two governments "shall retain in principle the right to conclude commercial treaties with third states on its own behalf." In negotiations with third states, however, Germany and Austria must see that their respective interests are not violated in contravention of "the tenor and purpose" of the proposed treaty. Furthermore, so far as it

56. Interview given by Dr. Schober to foreign newspaper correspondents in Vienna on March 30, 1931, *Neue Freie Presse*, March 31, 1931; speech by Dr. Curtius in the German *Reichsrat*, March 31, 1931 (full text in *New York Herald Tribune*, April 5, 1931).

57. Permanent Court of International Justice, *Customs Régime between Germany and Austria* (Protocol of March 19, 1931), Annex to the Request for Advisory Opinion of May 19, 1931 (Leyden, Sijthoff's Publishing Company, 1931), p. 10.

The Vienna Protocol was not the first attempt to establish an economic union between Germany and Austria. In anticipation of post-war readjustments, Germany had invited Austria-Hungary in 1915 to enter into negotiations for an economic union. On October 11, 1918, one month before the Armistice, the two governments concluded the Salzburg agreement, which provided for a customs and trade alliance, with free trade as its ultimate object. Intermediary duties, however, were to be retained for a certain period in order to protect Austrian industry against German competition. The outcome of the World War prevented the realization of this project. (Dr. Gustav Gratz and Professor Richard Schüller, *The Economic Policy of Austria-Hungary during the War*, English version by W. Alison Phillips, Economic and Social History of the World War, New Haven, Yale University Press, 1928, p. 9 *et seq.*)

57a. This provision was apparently intended to meet the terms of the Geneva Protocol No. III, October 4, 1922, by which Austria undertook to furnish the gross receipts of its customs and its tobacco monopoly as securities for the Reconstruction Loan of 1923.

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seemed opportune and possible, the two governments were to conduct joint negotiations for the conclusion of commercial treaties.[58] In conclusion, the Vienna Protocol provided that differences of opinion regarding the interpretation and application of the proposed treaty were to be referred to an arbitral committee composed of representatives of the two states.

POLITICAL OBJECTIONS TO THE AUSTRO-GERMAN PROJECT

The sudden announcement of the Vienna Protocol was received throughout Europe with surprise, and in France and Czechoslovakia, at least, with consternation. The objections which were immediately raised against the proposed customs union were based on political, legal and economic grounds. French opinion attributed far-reaching political motives to the Austro-German project, and claimed that it constituted a step towards *Anschluss*, a violation of the *status quo*, and an attempt by Germany to establish a *Mitteleuropa* along the lines forecast by Friedrich Naumann and other German writers during the World War.[59] The French press recalled the precedent of the *Zollverein* organized under Prussia's leadership between 1819 and 1842, which subsequently served as a framework for the German Empire, and prophesied a similar outcome for the Austro-German customs union. To no one in France did the Vienna Protocol come as a greater blow than to M. Briand, who had declared as late as March 3, 1931 in the French Chamber of Deputies, that all danger of *Anschluss* had disappeared,[60] and who had regarded France's gradual reconciliation with Germany as one of the achievements of his foreign policy. In a speech to the French Senate on March 28, M. Briand unreservedly condemned the manner in which the Vienna Protocol had been announced by its signatories.[61]

58. The commercial policy envisaged by the Vienna Protocol required the denunciation of previous treaty obligations which might conflict with the customs union. Doubtless with a view to obtaining a free hand in future commercial negotiations, Austria denounced its trade agreements with Hungary and Jugoslavia on March 31, 1931, and opened negotiations for new agreements with these two countries. For the terms of the new Austro-Hungarian commercial agreement, cf. p. 239.

59. Cf. Friedrich Naumann, *Mitteleuropa* (Berlin, Reimer, 1915).

60. *Journal Officiel, Débats Parlementaires*, No. 37, March 4, 1931, *Chambre des Députés, 14e Législature, 63e Séance, 1re Séance*, March 3, 1931, p. 1525.

61. *Ibid.*, No. 56, March 29, 1931, *Sénat, Session Ordinaire de 1931, 38e Séance, 7e Séance*, March 28, 1931, p. 690-694.

The British press likewise criticized the abruptness of the announcement, and described it as a grave tactical blunder, which threatened to jeopardize the success of the Disarmament Conference in 1932. Mr. Henderson, British Secretary for Foreign Affairs, speaking in the House of Commons on March 30, expressed some anxiety regarding the political repercussions of the Vienna Protocol which, in his opinion, was "calculated to raise suspicions and to nullify the advantages for the frank exchange of ideas offered by the now frequent meetings at Geneva and elsewhere."[62]

OPINION IN GERMANY AND AUSTRIA

Nor were the fears of France allayed by the enthusiasm with which the Vienna Protocol was almost unanimously greeted in Germany and Austria. The German press of all parties, with the exception of the Socialists, who criticized its abrupt announcement, hailed the protocol as the first autonomous act of German policy since 1918 and as a landmark in the history of German diplomacy. The view was even advanced by some foreign observers that the protocol had been concluded by Germany chiefly for political reasons—on the one hand, to appease the demands of the Hitlerites for aggressive action in foreign affairs, and, on the other, to strengthen the country's position in future negotiations with France. This contention, however, was denied by the German government, which declared that the proposed customs union was a regional agreement purely economic in character, and had been devised solely with the object of promoting the trade of the two countries. In his speech to the German *Reichsrat* on March 31, 1931 Dr. Curtius asserted, in answer to the allegations made by M. Briand and Mr. Henderson, that the customs union constituted neither a threat to peace nor an obstacle to the Disarmament Conference. The Vienna Protocol, he said, was entirely in harmony with the Briand project for European union, and paved the way for its eventual realization.[63]

62. *The Times* (London), March 14, 1931, p. 7.

63. *New York Herald Tribune*, April 5, 1931.

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In Austria, likewise, the proposed customs union met with a warm reception from such divergent political groups as the Social Democrats, the Pan-Germans and the Peasants' party. In a resolution adopted on March 24, the executive of the Social Democratic party declared that Austria's "organic" unemployment could not be overcome except by inclusion of the country in a larger economic unit, and unreservedly pledged its support to the establishment of an Austro-German customs union.[64] The Pan-Germans welcomed the Vienna Protocol as a step toward the *Anschluss* which they had advocated since the war. Finally, the Peasants' party, which represents the well-to-do farmers and tends to favor union with Germany, hoped that the customs union would open a larger market in Germany for Austrian agricultural products.

Approval of the Austro-German project, however, was by no means unanimous. Fear that the consummation of the union would irrevocably prevent the return of the Hapsburgs aroused opposition to the Vienna Protocol among the Austrian monarchists, and in the Christian Socialist circles controlled by the former Austrian Chancellor, Mgr. Seipel.[65]

THE VIENNA PROTOCOL AND THE PEACE TREATIES

Closely connected with the political objections raised against the Vienna Protocol was the argument made in France and Czechoslovakia that the proposed customs union constituted a violation of the Treaty of St. Germain and the Geneva Protocol No. I of October 4, 1922. It will be recalled that, immediately after the World War, when Austria sought to effect a political union with Germany (*Anschluss*), France vigorously opposed the project, considering it inadmissible that Germany should be thus compensated for its territorial losses. By Article 80 of the Treaty of Versailles Germany acknowledged, and undertook to respect, the independence of Austria, and agreed that this independence should be inalienable, except with the consent of the League of Nations. Article 88 of the Treaty of St. Germain supplemented this provision by declaring the independence of Austria inalienable "otherwise than with the consent of the League of Nations"; in the absence of such consent, Austria undertook to abstain from any act which might indirectly or by any means whatever compromise its independence "by participation in the affairs of another power." Finally, in the Geneva Protocol No. I—one of the three instruments signed on October 4, 1922 which provided for the financial reconstruction of Austria under the auspices of the League of Nations—Great Britain, France, Italy and Czechoslovakia declared that they would respect the political independence, territorial integrity and sovereignty of Austria, and would not seek to obtain any special or exclusive economic or financial advantage calculated to compromise its independence. Austria reiterated the pledge not to alienate its independence, and undertook to abstain from any negotiations or any economic or financial engagement calculated to compromise its independence. This undertaking, however, was declared not to prevent Austria from maintaining, subject to the provisions of the Treaty of St. Germain, "her freedom in the matter of customs tariffs and commercial or financial agreements, and in general, in matters relating to her economic régime or her commercial relations, provided always that she shall not violate her economic independence by granting to any state a special régime or exclusive advantages calculated to threaten this independence."[66]

In addition, the Geneva Protocol No. III established a Committee of Control composed of Great Britain, France, Italy and Czechoslovakia, the original guarantors of the Austrian Reconstruction Loan, and provided that any draft instrument or contract which was likely materially to change the nature, condition or administration of Austria's public domain should be communicated to the committee three weeks before the instrument went into effect.[67]

64. *New York Times*, March 25, 1931.
65. *New York Times*, March 29, 1931.

66. League of Nations, *The Financial Reconstruction of Austria*, cited, p. 137.
67. *Ibid.*, p. 139. The Committee of Control is at present composed of one representative each from Great Britain, France, Italy and Czechoslovakia, each of whom has twenty votes; one representative each from Belgium and Sweden, each of whom has two votes; and one representative each from the Netherlands and Denmark, each of whom has one vote. By agreements reached subsequent to the conclusion of the Geneva Protocols, Great Britain, France and Czechoslovakia each guaranteed 24.5 per cent of the Austrian loan, Italy 22.5 per cent,

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The question of whether or not the Vienna Protocol violated Austria's treaty obligations, which was essentially a legal question, thus appeared to hinge on the interpretation to be placed on the term "independence." In the course of the discussion which took place in the Council of the League of Nations on May 18, 1931 concerning various aspects of the protocol, Dr. Schober denied that the proposed customs union would infringe on Austria's independence. He argued that an interpretation of this term which would limit Austria's freedom of action in international relations might conceivably deprive the country of the substance of independence. "May I remind you," he said in conclusion, "that the Geneva Protocol not only imposes on Austria the obligation to maintain its independence, but also imposes on the powers the obligation to respect it?"[68]

ECONOMIC ASPECTS OF THE PROTOCOL

Not only was the Vienna Protocol attacked on political and legal grounds, but the view was expressed in France, Italy and Czechoslovakia that the protocol, far from accomplishing its avowed purpose of improving the economic condition of the two countries, would still further complicate the economic problems of Europe. The French government declared that the proposed customs union would prove disadvantageous to Austrian industry without mitigating the prevailing depression. More serious still, in its opinion, was the fact that, for the sake of an uncertain economic advantage, the Vienna Protocol created a political menace "which would keep Europe in such a state of insecurity as to make the prospect of increased economic prosperity hopeless."[69] Italy, which feared Austro-German economic penetration in the Balkans, stated that the customs union did not offer a satisfactory solution of the economic problems of the Central Powers.[70] The most serious objections to the economic aspects of the Vienna Protocol, however, were raised by Czechoslovakia, which ranks next to Germany in Austria's export and import trade and would be more directly affected by the consummation of the customs union than any other European country. In his speech to the Czechoslovak Chamber of Deputies on April 23, 1931, Dr. Eduard Benes, Czechoslovak Minister of Foreign Affairs, expressed the fear that the customs union would isolate his country and establish Austro-German hegemony in the markets of Central Europe. Furthermore, he asserted that the arrangement outlined in the Vienna Protocol was not a complete customs union, since the customs administration of the two countries was not assimilated and internal duties were to be retained, and that it would therefore constitute a violation of the most-favored-nation clause which Czechoslovakia regarded as the keystone of Europe's economic system. In consequence, he said, the establishment of this customs union *sui generis* would provoke retaliation on the part of third states, and would result in a new period of economic warfare.[71]

In answer to some of these economic objections, Dr. Schober declared on May 17 in the Council of the League of Nations that the question of whether or not the customs union would benefit Austria should be left to the decision of the Austrian government alone. His government, he said, would not have entered into negotiations with Germany had it not been convinced, in agreement with all economic circles, that a customs union would benefit Austria.

No such unanimity concerning the potential advantages of the customs union, however, existed among Austrian industrialists. While the customs union was supported by the iron and electrical industries, which have close affiliations with Germany, the knitted goods, chemical, cement and building

Belgium and Sweden 2 per cent each, and the Netherlands and Denmark 1 per cent each. The Committee of Control meets from time to time in Geneva; an extraordinary meeting may be convened on a request supported by not less than ten votes. The chairmanship of the committee is at present held by Signor Brocchi, the representative of Italy.

68. League of Nations, Sixty-third Session of the Council, *Minutes* (Geneva, 1931), p. 4.

69. *Ibid.*, p. 7, speech of M. Briand in the Council of the League of Nations, May 19, 1931.

70. *Ibid.*, p. 7, speech of Signor Grandi, Italian Minister of Foreign Affairs, May 18, 1931. Cf. also Minimus, "L'Accordo Austro-Germanico," *Gerarchia*, June 1931, p. 459; Virginio Gayda, "L'Unione Austro-Germanica a Ginevra," *ibid.*, p. 471.

71. Dr. Eduard Benes, *The Austro-German Customs Project*, Czechoslovak Sources and Documents (Prague, "Orbis," 1931), p. 35 *et seq.*

The view has been expressed that Austria and Germany, faced with the necessity of finding a formula which, while compatible with Austria's treaty obligations, would not be applicable to third states under the most-favored-nation clause, decided to adopt an arrangement which in reality constitutes a form of preferential treatment, but which they described as a customs union in order to evade the most-favored-nation clause. (William Martin, "L'Union Douanière et l'Indépendance de l'Autriche," *Journal de Genève*, March 31, 1931.) The treaties concluded by the United States with Germany in 1925 and with Austria in 1929 make no exception for a customs union. No such exception, likewise, is found in the Anglo-Austrian treaty of 1924 or in the treaties concluded by France with Germany in 1926 and with Austria in 1929. The Anglo-German treaty of 1924, however, specifically excepts from the most-favored-nation clause any benefits accorded to a country linked or to be linked with Germany by a customs union.

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material, and certain of the engineering industries feared German competition and demanded adequate protection.[72] It is generally recognized that Austrian industry, which is relatively undeveloped and devoted, in many of its branches, to processes requiring small-scale craftsmanlike production, would find it difficult to enter into immediate competition with the mass production of highly rationalized large-scale German industry. Nevertheless, Austrian advocates of a customs union claim that the rationalization of Austrian industry has hitherto been hampered by lack of capital, and that the consummation of the proposed union might increase German investments in Austria.[73] In any event, it would appear that the interests of Austrian industry would have to be the subject of prolonged negotiations between the two governments.

ATTITUDE OF THE LITTLE ENTENTE

While the disadvantages of the customs union were thus canvassed both inside and outside Austria, its possible benefits were under discussion in Hungary, Rumania and Jugoslavia. The latter two countries, which with Czechoslovakia are members of the Little Entente and usually act in harmony with France in matters of foreign policy, have recently sought to strengthen their economic ties with Germany and Austria, both of which offer important markets for their agricultural products. Shortly after the announcement of the Vienna Protocol, it was reported that Rumania and Jugoslavia were not unwilling to enter the proposed customs union provided they could do so on favorable terms. However, at the end of the annual conference of the Little Entente, held at Bucharest in May 1931 behind closed doors, it was announced that the three countries were unanimously opposed to the Austro-German project. It was reported at that time that Czechoslovakia had agreed not to raise its duties on the agricultural products of Rumania and Jugoslavia and that Rumania, in return, had suspended its negotiations for a preferential commercial agreement with Germany. Nevertheless, Rumania and Jugoslavia appeared to have retained their freedom of action with respect to the Vienna Protocol, and the former proceeded to conclude a commercial agreement with Germany on June 26, 1931.[74]

SUBMISSION OF THE PROTOCOL TO THE LEAGUE OF NATIONS

The opposition aroused by the Vienna Protocol might have had serious consequences had the governments concerned failed to agree on a procedure for the peaceful settlement of the controversy. On March 24, however, Mr. Henderson conferred with M. Briand in Paris and suggested that the question of the proposed customs union be placed before the Council of the League of Nations at its May session.[74a] Following his conversation with M. Briand, Mr. Henderson requested the German and Austrian governments to postpone any definite action on the customs union pending examination of its legality by the Council of the League. Dr. Brüning, the German Chancellor replied on March 25 that the Austro-German project did not violate the peace treaties and that, consequently, the League of Nations had no occasion to intervene in the matter. Nevertheless, he accepted Mr. Henderson's proposal, with the qualification that the Council of the League should limit its inquiry to the legal aspects of the Vienna Protocol. Germany, he declared, would strongly oppose examination of the protocol from a political point of view. An identical reply was given by Dr. Schober.

Having secured the consent of France, Germany and Austria to this procedure, the British government requested the Secretariat of the League on April 12 to place the question of the proposed customs union on the agenda of the Council. On April 14 Dr.

72. *The Economist* (London), April 18, 1931, p. 841; Virginio Gayda, "L'Accordo Austro-Tedesco," *Giornale d'Italia*, May 12, 1931.

73. Adolf Günther, *Die Wirtschaftlichen Beziehungen Zwischen dem Deutschen Reiche und Oesterreich* (Berlin, Junker und Dünnhaupt Verlag, 1929), p. 17 *et seq.* It is impossible, within the scope of this report to give a detailed account of the affiliations between Austrian and German industry. One of the principal Austrian industrial firms, the Alpine Montan Gesellschaft, which owns iron mines in Styria and Carinthia, was formerly connected with the Stinnes interests, and is now affiliated with the United Steel Works in Dusseldorf, which controls the Rhine coal, steel and iron industry and owns over 56 per cent of the shares of the Austrian concern. The Mittberger Kupfer A.-G., which controls Austria's principal copper deposits, has connections with the German firm of Schaefer und Schael A.-G., in Breslau. German capital has been invested in the Veitsche Magnesitwerke A.-G., producers of magnesite, which constitutes an important item of Austrian export. (Herbert Kniesche, *Der Oesterreichisch-Deutsche Wirtschaftzusammenschluss*, Stuttgart, Deutsche Verlags-Anstalt, 1930.)

74. For details regarding this agreement, cf. p. 239.

74a. This procedure accorded with the provisions of the Geneva Protocol No. I, in which Great Britain, France, Italy and Czechoslovakia had declared that, with a view to insuring respect of Austria's independence by all nations, they would, should occasion arise, appeal either individually or collectively to the Council of the League, and would abide by its decision.

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Curtius notified the Secretariat of the League that Germany desired to discuss the development of customs relations in the European Commission, which was to meet on May 15, three days before the Council, and to make a communication at that time with regard to its proposed customs union with Austria.[75] A third inquiry into the Austro-German project was instituted early in May, when Italy summoned a meeting of the Committee of Control to determine the effect of the customs union on the securities furnished by Austria for the Reconstruction Loan of 1923.

FRANCE AND THE CUSTOMS UNION

The outcome of these various investigations, however, appeared to depend on the future trend of French foreign policy, which at that time was causing considerable apprehension in Geneva. The brunt of the attack made in the French press against the Vienna Protocol had been borne by M. Briand, who was accused of weakness and lack of foresight in his policy toward Germany. His attempts at conciliation, notably the evacuation of the Rhineland in 1930, had, it was alleged, merely encouraged Germany to disregard the peace treaties and to effect a *rapprochement* with Austria which would inevitably result in *Anschluss*.[76] These attacks, launched principally from the Right, culminated in a two-day debate on foreign policy, May 6 to 8, in the Chamber of Deputies. In answer to heated interpellations by MM. Franklin-Bouillon and Louis Marin, inveterate opponents of M. Briand's policy, the French Foreign Minister declared:

> "I regret nothing, absolutely nothing. I claim that the policy followed by us and approved by the Chamber and, I am convinced, by the country, has not only done France no harm, but has rendered it a real service." Referring to the Austro-German project, he said that it had an economic character, but added: "I do not say this to diminish its importance. The economic aspect of things is often more important than the political aspect." Austria, he asserted, did not have the right, under the peace treaties, to conclude the Vienna Protocol. In his opinion, however, France was not altogether free from blame. ". . . If we find ourselves faced by a situation which we unanimously deplore, it is perhaps because the Minister of Foreign Affairs has been reduced to parading a smile among the nations, without anything tangible to offer them." He expressed concern regarding the position of France's Eastern European allies "who die of hunger while their bins are bursting with grain and who have to borrow of the usurer, at the rate of 20 per cent, the money which, in the vaults of our banks, brings 1.5 per cent. . . . And Germany, whose power of production is infinite, has turned to Rumania, to Jugoslavia, offering to come to their aid, but also asking them: 'What will you give in exchange?' And meanwhile the French Minister of Foreign Affairs went among the states of Central Europe, a smile on his lips, but with empty hands! Believe me, one has other exigencies when one suffers!"

In conclusion, M. Briand stated that France could not be satisfied with criticism of the Austro-German project but must offer a constructive counter-proposal, and indicated the main outlines of a French plan, the preparation of which had been reported in April. At the May meeting of the European Commission, he said, France would present a project providing for the disposal of the grain surplus, the financing of agriculture, and the organization of a European policy of production and exchange.[77]

At the close of the debate the Chamber of Deputies, by a vote of 419 to 43, expressed confidence in the government, and affirmed "its adhesion to the policy of international *entente* and of broad and loyal cooperation of the European states," while "condemning the project of the Austro-German customs union which would be in opposition to this policy and to the treaties." This vote represented the attitude of the Chamber toward the proposed customs union rather than an expression of confidence in the Briand policy as a whole; it was not indicative, as later events were to prove, of Briand's chances for the French presidency, an office which his friends had long urged him to seek. Nevertheless, M. Briand, who had hitherto appeared reluctant to abandon the Quai d'Orsay, was persuaded on May 11 to enter his candidacy for the office of chief executive. The election thereafter became a contest between M. Briand, supported by the Radical Socialists and the Socialists, and M. Paul Doumer, president of the Senate, who, while himself a member of the Left group in the Senate, was championed by the Na-

75. League of Nations, Commission of Enquiry for European Union, C.240.M.106., Geneva, April 15, 1931. Cf. p. 221.
76. For typical arguments on these points, cf. editorials by Pierre Bernus, *Journal des Débats*, March-May 1931.
77. *Le Temps* (Paris), May 10, 1931; *Journal Officiel, Débats Parlementaires*, No. 65, May 9, 1931, *Chambre des Députés, 14e Législature, 104e Séance*, May 8, 1931, p. 2655-2661.

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tionalists and the parties of the Right. On May 13 the Chamber of Deputies and the Senate, voting jointly as a National Assembly, elected M. Doumer on the second ballot, M. Briand having withdrawn from the presidential race when the first ballot indicated a preference for his rival.

The defeat of M. Briand was interpreted throughout Europe as a triumph of the Nationalist elements in France comparable to the victory of the Hitler party in the German elections of 1930. It was feared for a moment, especially in Geneva, that the veteran statesman would withdraw from the Quai d'Orsay. M. Laval, the French Premier, prevailed on M. Briand to remain in office, however, and declared that the election of M. Doumer would involve no fundamental change in French foreign policy. In consequence, M. Briand went to Geneva for the meeting of the European Commission on May 15, where he was publicly greeted by Mr. Henderson as "the grand old man of Europe," and where he himself reaffirmed his faith in the cause of international peace.

REFERENCE OF THE PROTOCOL TO THE WORLD COURT

In the ensuing debate between M. Briand and Dr. Curtius in the European Commission on May 16, the former asserted that under no circumstances would France permit the establishment of an Austro-German customs union, while serious objections to the project were raised by Signor Grandi, Italian Minister of Foreign Affairs. This preliminary passage at arms did not reassure Germany and Austria concerning the action of the Council of the League, which opened on May 18. Discussion in the Council centred on a draft resolution submitted by Mr. Henderson, which requested the Permanent Court of International Justice for an advisory opinion regarding the validity of the Vienna Protocol. In answer to repeated questions from Mr. Henderson, Dr. Schober declared that his government did not contemplate a *fait accompli* pending action by the Council on the proposed advisory opinion. Dr. Curtius, however, took the view that a political inquiry into the Austro-German project was inadmissible. The German contention was attacked by M. Marinkovitch, Foreign Minister of Jugoslavia, who declared that "no power, and certainly no great power, has the right to oppose absolutely the examination of any question which a member of the League of Nations may see fit to submit to the Council." Dr. Curtius retorted that he had no intention of pursuing a policy of prestige, but that the arraignment of Germany before any public body as a disturber of the peace would be intolerable if the Court held the Vienna Protocol valid. Despite this clash, the Council unanimously agreed on May 19 to accept Mr. Henderson's draft resolution which requested the Permanent Court of International Justice to give an advisory opinion on the question of whether the proposed Austro-German customs union was compatible with Article 88 of the Treaty of St. Germain and the Geneva Protocol No. I of October 4, 1922.[78] The amicable solution reached by the Council in a major dispute involving the interests of great powers was hailed as a distinct achievement of the League of Nations.

FAILURE OF THE CREDIT-ANSTALT

The repercussions of the Vienna Protocol, however, continued to agitate Central Europe. On May 11, on the eve of the European Commission's meeting in Geneva, the Austrian government announced that the *Credit-Anstalt*, one of Austria's oldest private banks, had discovered that its losses for 1930 reached about $20,000,000, a sum which exceeded its capital stock. These losses were attributed, in part, to the fusion of the bank in 1929 with the *Boden Credit-Anstalt*, then on the point of collapse, and in part to the devaluation of Austrian and foreign stocks. Mismanagement of the bank's affairs was likewise blamed for its difficulties. In addition, however, it was claimed that the crisis of the *Credit-Anstalt* had been precipitated by the withdrawal of French short-term credits following announcement of the Vienna Protocol.[79]

The critical situation of the *Credit-Anstalt*, which controlled nearly 80 per cent of Austrian industry, and had numerous foreign connections, threatened to have far-reaching effects on the already precarious financial affairs of Central Europe. In an attempt to avert the collapse of the bank,

78. For the text of the resolution, cf. League of Nations, Sixty-third Session of the Council, *Minutes*, First Meeting, p. 4.
79. *New York Times*, May 17, and June 7, 1931.

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the Austrian government decided to place at its disposal approximately $14,000,000 in new capital, to be raised by an issue of three-year treasury notes, while the Bank of Austria and the House of Rothschild, which held controlling interests in the *Credit-Anstalt*, undertook to contribute about $4,000,000 each.[80] The Austrian Parliament authorized the government on May 14 to raise a loan of $21,000,000, of which $14,500,000 was to be used to restore the finances of the *Credit-Anstalt*, while the balance of $6,500,000 was earmarked for the needs of the Austrian exchequer.

AUSTRIA SEEKS AN INTERNATIONAL LOAN

The prospects of a loan to Austria were canvassed in Basle on May 17 at a conference between Dr. Reisch, governor of the Bank of Austria, and the Bank for International Settlements. M. Moret, governor of the Bank of France, and his French colleagues expressed willingness to assume a large share of the proposed loan, provided Austria abandoned the proposed customs union with Germany.[81] On May 18 the Bank for International Settlements informed the Bank of Austria that it was prepared to extend a three-months' credit of about $14,000,000, the operation to consist of the rediscounting, by the B. I. S. and ten central banks, of Austrian commercial bills or paper guaranteed by the Bank of Austria. The Federal Reserve Bank of New York participated in this transaction and extended credit to the Bank of Austria in the form of an agreement to purchase prime commercial bills from the Austrian bank of issue. On the same day, following Dr. Schober's statement that Austria would take no action regarding the customs union pending decision by the Council on the advisory opinion of the Court, the Committee of Control, meeting in Geneva, authorized the issue by Austria of treasury notes to the maximum amount of $21,000,000, the sum approved by the Austrian Parliament on May 14.

THE BRITISH CREDIT TO AUSTRIA

The Austrian government, however, was in a dilemma as to the source from which this loan of $21,000,000 could be obtained. Despite demands on the part of the Austrian Pan-Germans, who feared the breakdown of the proposed customs union unless Germany made a gesture to assist Austria's finances, German capital, itself faced with grave difficulties, failed to come to the rescue of the *Credit-Anstalt*. France, meanwhile, was unwilling to participate in a loan unless it was negotiated under the auspices of the League of Nations, like the Reconstruction Loan of 1923.[82] In June French bankers were reported to have declared that a loan would be forthcoming only on condition that Austria abandon the customs union and submit to international financial control.[83] The Austrian government apparently communicated the French conditions to Great Britain, whereupon the Bank of England on June 17 advanced to Austria an interim credit of $21,000,000 without guarantee, subject to renewal as long as necessary. Further relief was afforded to Austria by an agreement which Dr. Juch, Austrian Minister of Finance, concluded on June 16 with a committee of creditors of the *Credit-Anstalt* organized in London on May 27 at the request of the Bank of Austria. By the terms of this agreement, the committee of creditors undertook not to withdraw their credits for a period of two years, in return for a guarantee of the bank's liabilities by the Austrian government.[84] On June 26 the latter guaranteed the domestic as well as the foreign liabilities of the *Credit-Anstalt*, to an amount estimated at $450,000,000.[85]

Immediately following the conclusion of this agreement with the creditors' committee, Dr. Franz Winkler, Austrian Minister of the Interior and representative of the Peasants' party in the coalition cabinet formed by Dr. Otto Ender in December 1930, resigned on the ground that his party found

80. *Ibid.*, May 12, 1931; *New York Herald Tribune*, May 12, 1931. The *Credit-Anstalt* has been connected with the *Bank für Auswärtigen Handel* in Berlin since the latter's foundation in 1922, as well as with the *Banque pour le Commerce et l'Industrie* in Paris, the *Boehmische Escomptebank und Creditanstalt* in Prague, the *Rumanische Creditanstalt* in Bucharest, the *Warschauer Discontobank* in Warsaw, and the *Banque Franco-Belge et Balkanique* in Sofia. The two other large private banks in Vienna, the *Wiener Bank-Verein* and the *Niederoesterreichische Escomptegesellschaft*, likewise maintain close relations with banks in Germany, Poland, Czechoslovakia, Jugoslavia, Belgium and France. (*The Austrian Year Book 1930*, cited, p. 113-114.) The *Mercurbank* of Vienna was affiliated with the *Darmstädter und Nationalbank*, one of the largest banks in Germany, which suspended business on July 13, 1931.

81. *New York Times*, May 18, 1931.

82. *Ibid.*, June 17, 1931; "L'Assistance à l'Autriche et la Politique Française," *L'Europe Nouvelle*, June 27, 1931, p. 877.

83. *New York Herald Tribune*, June 22, 1931.

84. *The Economist* (London), May 30, 1931, p. 1151; *New York Times*, June 14, 1931.

85. *New York Times*, June 27, 1931.

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the financial obligations assumed by the government too far-reaching in character. The loss of the Peasants' party's support forced the resignation of the cabinet on June 16. A new coalition cabinet was formed on June 20 by Dr. Karl Buresch, a Christian Socialist, in which Dr. Schober was retained as Minister of Foreign Affairs and Dr. Redlich, an authority on constitutional law, was appointed to the post of Minister of Finance. The attention of the government was perforce centred on measures for the rehabilitation of Austria's financial affairs to the exclusion of less immediate matters like the customs union. Meanwhile, the enthusiasm aroused by the Vienna Protocol had been somewhat dampened by the financial crisis which developed in Germany during the early part of July, and it was claimed in Christian Socialist circles that Austria would be well-advised to place greater reliance on French and British financial assistance than on the hope of ultimate economic union with Germany.[86]

THE FRENCH PLAN FOR EUROPEAN RECONSTRUCTION

Whatever the defects which may be found in the conception or execution of the Vienna Protocol, some observers believe that its announcement had the salutary effect of arousing Europe from a state of lethargy, and focusing attention on the necessity of finding a prompt solution for pressing economic problems. Opinion differed, however, as to the proper remedy. France, having declared its opposition to the proposed Austro-German customs union, chiefly because of its alleged political implications, recommended that the League and the European Commission should take measures to alleviate the condition of Europe's agriculture and industry, to extend financial assistance, and to improve the condition of Austria. Italy, which doubted the efficacy of the Austro-German project, nevertheless agreed with Austria that the machinery of the European Commission was too slow to afford immediate relief, and suggested, as an alternative, the conclusion of bilateral agreements based on mutual economic interests. The two schemes, both of which were presented to the European Commission at its May session, while differing in method, did not appear essentially irreconcilable in their objectives.

AGRICULTURAL PREFERENCES

The French plan adumbrated in M. Briand's speech to the French Chamber of Deputies on May 8 was formally introduced in the European Commission on May 16 by M. François-Poncet, French Undersecretary for National Economy.[87] This plan, which envisaged the gradual co-ordination of Europe's economic structure to a point at which the several states could undertake to lower their tariff walls, dealt with four main questions—agriculture, industry, credits and the position of Austria. The French government declared that the distress of the agricultural countries of Central and Eastern Europe was due chiefly to inadequate prices, and could be remedied by facilitating the export of cereals. It therefore suggested that the industrial states of Europe should extend preferences to European grain. Such preferences, according to the French plan, were an exceptional measure, justified only by abnormal circumstances, and should not be regarded by the overseas wheat-producing countries as a derogation to the most-favored-nation clause. The plan further proposed the organization of a committee composed of the buying and selling countries which would periodically determine the quotas of grain entitled to preferential treatment, as well as the establishment of a single wheat-selling commission. The question of whether or not the industrial states of Europe, in return for the concessions granted to agricultural countries, should receive equivalent preferences on their manufactured goods, and the further question of whether such preferences should, under the most-favored-nation clause, be automatically extended to non-European countries, was left open by the French plan, which stated, however, that the most-favored-nation clause should be "tampered with as little as possible." Finally, the French plan recommended the establishment of an international agricultural mortgage credit bank.

86. *Ibid.*, July 22, 1931. On August 11 Austria requested the League of Nations for financial assistance. The renewal of League control over Austria's finances may result in virtual abandonment of the proposed customs union.
87. League of Nations. *The French Plan*, C.338.M.151., Geneva, May 16, 1931.

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INDUSTRIAL CARTELS

Turning to the industrial situation, the French plan declared that the remedy lay in an improvement of the machinery of production and distribution, to be effected by the extension of existing industrial cartels and the establishment of new ones. The system of cartels, which already embraces such raw materials as potash, copper, zinc and tin, and such manufactured products as steel, rails and dyestuffs,[88] should, in the opinion of the French government, be applied to chemical products, motor cars, textiles, timber and wool. Such a system, according to the French plan, would not only stabilize existing customs duties, but would tend eventually to reduce tariff barriers. To the objection that the organization of cartels is a slow and cumbersome method, the French government pointed out that the proposed Austro-German customs union likewise could not be instituted overnight, and that the French scheme at least created no danger of political complications.

FINANCIAL ASSISTANCE

With respect to financial assistance, the French plan recommended that loans should be made under the auspices of the League of Nations to countries suffering from lack of capital. The French government suggested that, in the case of government loans for currency purposes and for the financing of public works, the Financial Committee of the League should be permanently empowered to receive requests from borrowing states, and in agreement with the latter should approach various bankers for the purpose of forming international lending groups. In this manner, according to the French plan, close cooperation would be established between lending markets, government treasuries, banks of issue and borrowing states, thus eliminating competition and duplication of effort. The French government declared, however, that this scheme, in which French banks were ready to collaborate, presupposed a general desire for peace, that financial requirements were closely bound with political conditions, and that any solution which was not based on European cooperation would be doomed to failure. Finally, the French plan recognized Austria's economic plight, which it described as "temporary," and proposed the extension of financial assistance to Austria, as well as the reduction of duties on Austrian goods.

CRITICISMS OF THE FRENCH PLAN

The comprehensiveness of the French plan and the diversity of the aims which it sought to achieve aroused considerable doubts regarding its feasibility. Criticism was directed particularly against the section of the plan devoted to agriculture. In the opinion of competent observers, the French proposal for agricultural preferences offered nothing fundamentally new, and was designed primarily to cement France's political relations with Rumania and Jugoslavia. Previous European and international conferences, it was pointed out, had failed to reach an agreement on preferential treatment for Europe's agricultural products.[89] The French plan, it was claimed, had therefore merely resurrected a scheme which experience had proved to be unworkable, without offering a solution of the problems raised by the most-favored-nation clause and by the demand of industrial states for equivalent concessions from agricultural countries.

International Agricultural Mortgage Credit Bank

Greater progress, however, had been made with respect to the organization of an international agricultural mortgage credit bank, which was likewise advocated in the French plan. The extension of agricultural credits demanded at the Bucharest and Warsaw conferences had met with a sympathetic reception at the Second League Conference for Concerted Economic Action on November 17, 1930, which requested the Council to study the question without delay. The Council, in turn, referred the question to the Financial Committee of the League of Nations which, in collaboration with a committee appointed by the European Commission at its second session in February 1931,[90] prepared a scheme for an International Agricultural Mortgage Credit Company, which was approved by the European Com-

88. For a complete list of existing European cartels, cf. Harry D. Gideonse, "International Industrial Agreements," Foreign Policy Association, *Information Service*, Vol. V, No. 24, February 5, 1930.

89. For the work of these conferences, cf. p. 221 *et seq.*

90. League of Nations, Commission of Enquiry for European Union, *Minutes of the Second Session of the Commission*, cited. Cf. p. 220.

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mission on May 20, 1931 and by the Council of the League on the following day. This scheme consisted of three instruments—a convention, the charter of the company, and statutes defining its functions.[91] The convention, which was immediately signed by sixteen states,[92] established an international mortgage company which was empowered to extend credits to agricultural credit or mortgage institutions situated in the territory of the contracting states. These states undertook to make advances to this company in proportion with their contributions to the League budget, and to exempt the loans of the company from any internal taxes or duties. The statutes of the company provide that it shall have its seat in Geneva, and that its president and vice-president shall be appointed by the Council of the League of Nations. The company, according to its statutes, can make long- and medium-term loans to mortgage or agricultural credit institutions which, in turn, make loans upon first mortgages on immovable agricultural property. At the time of its establishment, it was assumed that the company would extend credits only to institutions situated in states members of the League of Nations. Following representations on this point by the Turkish delegate to the European Commission, however, M. Briand indicated that some method might be devised for extending agricultural credits to non-member states as well. The foundation of this international company within the frame-work of the League of Nations and of the European Commission fully conformed with the terms of the French plan, although it should be noted that the original proposal for agricultural credits came, not from France, but from the agrarian states of Eastern and Southeastern Europe.

Skepticism was also expressed regarding the proposals of the French plan for the relief of industry. It was claimed that industrial cartels, by stabilizing existing prices, actually constitute an obstacle to tariff reduction, and that the creation of new cartels which, like their predecessors, might be easily broken up by the withdrawal of one or more national groups of producers, does not go to the root of the problems of overproduction and declining prices. Further consideration, however, may be given to this proposal by the committee of economic experts which the European Commission at its May session convened for the study of methods to improve the organization of production and trade.[93]

France's Financial Policy

While the agricultural and industrial sections of the French plan aroused little enthusiasm, its proposal for financial assistance was regarded as worthy of further study. Recent experience generally confirms the French view that any substantial loan to countries whose credit has been shaken by political or economic difficulties can be floated only with the cooperation of the principal lending states. The success of such loans, moreover, depends on the restoration of confidence among investors. The Financial Committee of the League, for its part, has demonstrated its competence to deal with financial questions, notably in the matter of various guaranteed loans and agricultural credits. The question remains, however, whether France, which is the only state member of the League capable of engaging in extensive financial operations at the present time, would whole-heartedly cooperate with the League's Financial Committee, or would continue, as in the past, to link loans with political considerations.

Recent events would indicate, in fact, that the French banks, which are peculiarly responsive to government influence, are willing to extend loans only to countries bound to France by political ties. Thus on April 23, 1931, the day when Dr. Benes made a vigorous attack on the proposed Austro-German customs union in the Czechoslovak Chamber of Deputies, a loan of $50,000,000 to Czechoslovakia was concluded in Paris. The announcement of the loan at that particular time, despite the fact that it was not to be issued until some months later, was interpreted as an ex-

91. League of Nations, *International Agricultural Mortgage Credit Company, Convention, Charter and Statutes and Other Relevant Documents,* C.375.M.155., Geneva, May 22, 1931.

92. These states were: Belgium, Bulgaria, Czechoslovakia, Estonia, France, Germany, Greece, Hungary, Italy, Jugoslavia, Latvia, Luxemburg, Poland, Portugal, Rumania and Switzerland.

93. The ten experts who are to compose this committee shall be appointed by the governments of Belgium, Czechoslovakia, France, Germany, Great Britain, Italy, the Netherlands, Poland, Sweden and the Union of Soviet Socialist Republics. League of Nations, *Report by the Secretary-General of the Assembly on the Work of the Commission of Enquiry for European Union,* cited, p. 20. This committee expects to hold its first meeting in August 1931 at Geneva.

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pression of France's solidarity with Czechoslovakia on the subject of the Vienna Protocol. In April, likewise, a loan of $40,000,000 was negotiated in Paris by the *Banque des Pays du Nord* and the Schneider-Creusot group, French manufacturers of armaments, for the completion and operation of a railway line between Kattowic and Gdynia, the new port built by Poland on the edge of the "Polish Corridor." This railway, which is to be constructed by a joint Franco-Polish enterprise, will provide a direct route from the mineral and metallurgical region of Upper Silesia to the Baltic, and will eventually revert to Poland.

French Loans to Southeastern Europe

The French bankers, moreover, apparently heeded M. Briand's plea for financial assistance to France's Southeastern European allies. On March 11, after many weeks of delicate negotiations, a loan to Rumania of about $50,000,000 was concluded in Paris, the major share of which was taken by a French banking group headed by the *Banque de Paris et des Pays Bas*. In this transaction, however, the French banks obtained the support of a consortium of foreign bankers in Berlin, Amsterdam, Stockholm, Prague, Vienna, Brussels and New York. The Rumanian loan was to furnish a part of the capital of the new Rumanian agricultural credit bank, and to supply funds for railway and road construction.[94] On May 8, 1931 negotiations were concluded in Paris for a loan of about $42,000,000 to Jugoslavia, to be issued for the most part by a group of French banks headed by the *Union Parisienne*. This loan was to be used for the stabilization of Jugoslav currency and for the construction of public works.[95]

Finally, the French bankers have shown great reluctance to lend money to ex-enemy countries, notably Austria and Germany, except on conditions which the latter regard as unacceptable, and have withdrawn credits from these countries for political reasons. It has already been noted that on the occasion of a crisis in the *Credit-Anstalt* French bankers made the extension of credits to Austria contingent on the abandonment of the Austro-German customs union and on the establishment of League supervision over Austrian finances. Similiarly, when the German *Reichsbank* attempted early in July to secure a foreign credit of $400,000,000 in order to avert a grave financial crisis, the French government refused to participate in such a credit unless Germany agreed to abandon the proposed customs union, give up the construction of "pocket battleships," and prevent further display of Nationalist sentiment by the German *Stalhelm*. These conditions were denounced in Germany as blackmail, and the German government declared that their acceptance would be tantamount to political suicide. Nevertheless, the financial resources which France now has at its command place it in a position where it can dictate its own terms, however onerous, to prospective borrowers. It is not denied by competent observers that the establishment of some form of control by the League of Nations over government loans would mark an important step toward international financial cooperation. Practical measures for the realization of the French proposal may be taken by a small committee on state loans of an international character which the European Commission at its May session requested the Council of the League of Nations to appoint.[96] It is believed, however, that the efficacy of the French proposal remains in doubt as long as France continues to use foreign loans for the purpose of preventing its Southeastern European allies from effecting an economic *rapprochement* with the Central Powers.

THE ITALIAN PROPOSAL FOR BILATERAL AGREEMENTS

In contrast to the French plan, which once more sought to secure preferential treatment for agricultural products by means of a multilateral agreement, the Italian proposal made in the European Commission by Signor Grandi on May 16, 1931, envisaged an extensive system of bilateral preferential agreements between

94. *New York Times*, March 11, 1931, p. 11; March 12, 1931, p. 17; and April 3, 1931, p. 43.

95. *Ibid.*, May 9, 1931, p. 7.

96. League of Nations, Commission of Enquiry for European Union, *Resolutions on Economic Questions*, C.395.M.158., Geneva, May 28, 1931.

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industrial and agricultural states.[97] The essential features of the Italian proposal, which are embodied in agreements concluded by Italy with Austria and Hungary on May 11, 1931, are the purchase by each of the contracting parties of specified quantities (contingents) of certain products exported by the other, and the mutual grant of credit and transit facilities. Thus Italy undertakes to purchase a specified quantity of Austria's timber and of Hungary's agricultural products, notably grain and cattle, in return for which it will export specified quantities of fruit, silks, hats, automobiles and motor tractors to these two countries.[98] Neither one of the contracting parties is to reduce its customs duties, and no occasion will therefore arise for the application of the most-favored-nation clause. The duties collected by each of the states on the goods of the other, however, will be utilized in the form of credits for the stimulation of mutual trade. In addition, the agreements concluded by Italy provide for reductions in railway tariffs and other transit facilities.[99] In practice, these various privileges may constitute an evasion of the most-favored-nation clause. The Italian government claims that such agreements, especially if accompanied by the establishment of the customs truce provided for by the convention of March 24, 1930, would correspond more closely to the economic interests of the European states than the French plan, and would yet be free of the political implications attached to the proposed Austro-German customs union.

AUSTRIA'S AGREEMENT WITH HUNGARY

That the Italian proposal represents a growing economic tendency in Europe is indicated by the agreements which Austria and Germany have recently concluded with agricultural states. The Austro-Hungarian agreement of July 1, 1931 likewise makes no attempt to reduce existing duties. This agreement embodies principles elaborated by Dr. Richard Schüller, economic expert of the Austrian Foreign Office, which consists of camouflaged rebates amounting to tariff preferences. The "Schüller" system is based on the assumption that trade between the two countries is conducted mainly on credit: the two governments, therefore, undertake to refund to their respective exporters, on fixed amounts of specified goods, the difference between the bank rate and the discount rate, which in Eastern Europe is from 8 to 12 per cent higher than the bank rate. Under this arrangement, Austria will pay refunds on manufactured products consigned to Hungary, while the latter will pay refunds on grain sold to Austria. Money for these refunds will be derived by the two governments from increased duties on each other's products. Austria will thus be able to raise its duties on grain, and Hungary its duties on Austrian manufactured goods, without actual threat of retaliation, and no occasion may arise for the application of the most-favored-nation clause. The operation of this complicated system may result in a gradual nationalization of foreign trade. It has already been proposed to establish a semi-official grain-importing monopoly in Austria, on the model of similar agencies now existing in Bulgaria, Hungary, Jugoslavia, Rumania and Poland.[100]

THE GERMAN-RUMANIAN AGREEMENT

Unlike the agreements sponsored by Italy and Austria, the German-Rumanian agreement of June 26, 1931 provides for a reduction of duties and envisages the application of the most-favored-nation clause. By the terms of this agreement, Germany grants reductions of 50 per cent on Rumanian corn and of 60 per cent on Rumanian barley, the advantage to accrue directly to German importers. The practical value of this reduction, however, is somewhat diminished by the fact that Germany maintains an import monopoly on grain, and that other agricultural countries may find it possible to secure equal privileges under the most-favored-nation clause. Rumania, in turn, agrees to reduce

97. For the text of Signor Grandi's speech in the European Commission, cf. *Giornale d'Italia*, May 17, 1931. Cf. also comments by Virginio Gayda, *Giornale d'Italia*, May 19, 1931. At the First and Second League Conferences for Concerted Economic Action, Italy had already advocated tariff reduction by means of bilateral agreements, in preference to multilateral agreements which, it claimed, had proved unworkable in practice. Cf. Bresler, "Trade Barriers and the League of Nations," cited, p. 217.

98. No automobiles will be exported by Italy to Austria, for the present at least, owing to objections raised by Austrian automobile manufacturers.

99. It is reported that Italy is negotiating a similar agreement with Jugoslavia, whose unfavorable treatment of Italian products has been widely commented on by the Italian press.

100. *New York Times*, May 5, 1931; *New York Herald Tribune*, May 23, 1931. It is reported that Austria is negotiating a similar agreement with Jugoslavia.

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its duties on over three hundred manufactured products which it imports principally from Germany, these reductions to be extended to third states under the most-favored-nation clause.[101] This agreement, by providing for mutual concessions, solves the question raised in the French plan concerning the equivalent which industrial states should receive in return for agricultural preferences. By a similar agreement concluded with Hungary in July 1931, Germany accorded preferential treatment to Hungarian wheat, subject to the application of the most-favored-nation clause, while negotiations for a preferential agreement are now proceeding between Germany and Jugoslavia. The extent to which the European agricultural countries will profit by the reductions instituted in these agreements depends, in large measure, on the willingness of the overseas wheat-producing countries temporarily to waive their right to equal treatment under the most-favored-nation clause. The selection by the contracting parties of the commodities on which they accord each other preferences may, however, result in an indirect evasion of most-favored-nation treatment.

THE COMMITTEE ON FUTURE HARVEST SURPLUSES

The problems raised by these various bilateral agreements were examined by the committee on future harvest surpluses, which opened its second session in Geneva on June 25, 1931. The committee recognized the difficulties faced by the agricultural countries, and stated in its report to the European Commission that a preferential régime for agricultural products was compatible with international cooperation, provided it were framed in accordance with certain rules which it proceeded to define. According to the committee, preferences must not be disguised, but should be set forth in agreements which presuppose the approval of third states and which should be registered with the Secretariat of the League of Nations. The preferences thus accorded must be regarded as a limited and temporary exception to existing practice, and should take the form either of a percentage reduction in customs duties or of a standard reduction applicable to specified quantities of goods. Furthermore, if these preferences involve equivalent concessions by the other contracting party, such concessions should not be preferential in character, but should be open to all states which can invoke the most-favored-nation clause. The committee on future harvest surpluses declared, moreover, that it was of capital importance for the maintenance of order in international economic relations that preferential agreements should be examined by an impartial neutral organ, and recommended that the Secretariat of the League should communicate to it all agreements of this nature. With respect to agreements which do not relate to customs duties, but attempt to secure better prices for agricultural products by credit or other facilities, the committee stated that their application raised extremely difficult problems, but reserved final judgment pending investigation.[102]

The only recent bilateral agreement which conforms with the rules laid down by the committee on future harvest surpluses is the German-Rumanian agreement, which was signed in Geneva after the other states represented on the committee had had an opportunity to examine its terms. This particular agreement has also met with approval in France, where it is regarded as compatible with the objects of the European Union.[103] It is not impossible that at least a temporary solution of the various problems created by preferential treatment, equivalent concessions and the most-favored-nation clause, may be found in bilateral agreements concluded on the model of those negotiated by Germany, subject to the approval of a European committee such as that on future harvest surpluses, on which both industrial and agricultural states are represented.[104]

101. *New York Times*, June 24, 1931; *The Economist* (London), July 4, 1931, p. 19.

102. League of Nations, Commission of Enquiry for European Union, *Committee to Study the Problem of the Export of Future Harvest Surpluses of Cereals, Second Session, June 25 to 27, 1931, Report*, C.430.M.179., Geneva, July 9, 1931.

103. "Nouvelles Tendances," *Le Temps* (Paris), July 7, 1931. The German-Rumanian agreement will be submitted to the European Commission in September 1931, and subsequently to the League of Nations and to states non-members of the League, including the United States.

104. The following sixteen states are now represented on the committee on future harvest surpluses: Austria, Belgium, Czechoslovakia, Estonia, France, Germany, Great Britain, Hungary, Italy, Jugoslavia, Norway, Poland, Rumania, Switzerland, Turkey and the Union of Soviet Socialist Republics.

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